

The Global 2000
Indian Summer
Tim Kelly 04.21.08

Atsushi Kaneko

For Japanese outfits like Seiko, it is better late than never to capitalize on a huge new consumer market.

Atsushi Kaneko climbs the stairs to his second-floor office in the bustling southern Indian metropolis of Bangalore. Tilting his head at the elevator doors below, he pauses. The 50-year-old boss of Japanese watchmaker Seiko's new Indian unit is, he reveals, scared of using it since the landlord pasted a notice at the entrance limiting the number of passengers to four instead of the six it's supposed to be able to carry. "I asked why, but got no straight answer," he explains, continuing up the stairs.

Dispatched to India last year by Seiko Holdings to set up the local sales company to hawk watches to the burgeoning middle class, Kaneko is discovering India's hazards. Japan's auto executives were swift to tap its economy; others, however, wary of risks apart from the elevators, steered clear.

The sustained nature of this boom is now easing those jitters, and a Japanese scramble to set up shop is on. Many of the new arrivals are finding that rivals from Europe, America and elsewhere got there before them.

"There is a queue of foreign companies waiting to enter India, so the Japanese have to be aggressive; less analysis, just get on with it," advises Kushal Pal Singh, who as the billionaire head of one of India's biggest property developers, DLF, is one of the subcontinent's leading businessmen.

India is on a shopping spree, with consumer spending forecast to quadruple to \$1.8 trillion by 2025. In the first half of the most recent business year TV sales jumped 15%, and in the first quarter sales of PCs rocketed 47%, according to IBEF, an Indian government research unit. A quarter of a billion Indians already own mobile phones, and 5 million new owners join them every month.

In 2005--06, the latest figures, India's imports from South Korea--an economy a fifth as big as Japan's--stood at \$43 billion, exceeding the \$36 billion from Japanese factories. Samsung and LG dominate sales of LCD televisions with a combined market share of 65%. Sony (nyse: SNE - news - people) trails with 14%. "We brought our LCD TVs into India earlier than our competitors," Samsung spokeswoman Eunhee Lee explains. Last year sales volume almost quadrupled to 170,000 sets.

Back in Bangalore Kaneko is upbeat. "Had we come six months later, it may have been too late," he concedes. But he sees a growth path. Standing in his way is Switzerland's Swatch Group and its stable of luxury watch brands, including Omega, Tissot, Hamilton and Longines.

So far sales are only a blip for the \$2 billion-in-revenue watchmaker and its sister company and movement supplier Seiko Epson with \$12 billion in sales. Kaneko measures success by how many inches of watch-store display space he steals from Swatch. After all, he says, letting Seiko in means "they have to kick somebody out." Store owners have told the Japanese manager the Swiss have warned them of a pullout if they give shelf space to the Japanese timepieces. Though empty so far, the threat has nonetheless "slowed down our entry into the market a little," admits Kaneko.

Finishing his meeting with public relations officials hired to spread Seiko's name in India, Kaneko and his sales and marketing head, Niladri Mazumder, pile into the company's chauffeured Toyota (nyse: TM - news - people) van and head out into the mayhem of Bangalore's midafternoon traffic to meet watch-storekeepers at malls thronged with weekday shoppers. Owners who free up the best display space get more than a pat on the back, the Japanese manager explains--they get a discount from the usual wholesale price. Kaneko also lavishes trophies on the bestselling stores and is mulling taking some of the owners on a trip to Japan. Those tactics have so far got Seiko into 81 outlets in India, way ahead of expectations, Kaneko boasts.

A rapid rollout of mall shopping space in the country has helped to entice consumer product lines like Seiko. But geopolitics also played a role. In 2005 Tokyo's interest surged as a worsening in Japan-China relations inspired then prime minister Junichiro Koizumi to begin wooing India with promises of money to build roads and rail lines, including billions of dollars to construct a freight corridor linking Delhi in the north to Mumbai, 720 miles south. A year later direct investment from Japan had doubled to \$515 million. India is also the biggest recipient of Japanese development aid, including \$100 million in low-interest loans to improve distribution in Bangalore.

The timing was a nice coincidence. Samir Sathe, founding director of Mumbai's Universal Consulting, which helps foreign companies enter India, says the luxury-product market was already expanding by 20% a year as Seiko finally entered the fray.

In the 1970s, he explains, when few Indians had the cash to buy luxury brands, owning a Seiko watch, either bought on a foreign trip or sent by overseas relatives, was all the rage. "When I was a kid, it was a big thing if your dad had one," he says. His father still owns the Seiko watch he bought back then. But the company then dropped the ball.

"The rise of India took Japan by surprise," says Kazumasa Kuboki, who runs the Bangalore branch of the Japan External Trade Organization (Jetro). Seiko is now one of 90 Japanese firms to make it to Bangalore, with Toyota--which has a plant there--the biggest. Already the best land for factories and offices is gone, and any new entrants will probably have to look 60 miles outside the city for a plant site, Kuboki says.

Meager domestic investment in roads means traffic in the metropolis of 6 million is gridlocked. The cacophony of honks and beeps from auto-rickshaws, cars, trucks and scooters vying for space is an unbroken accompaniment to life in the city. A metro line to ease the congestion won't be finished for six years. In the meantime, as families give up perching on scooters in favor of the comfort of cars, including Tata Motors (nyse: TTM - news - people)' new low-cost offering, the road mayhem will worsen.

But it isn't just traffic that might slow some of Seiko's deliveries. Bureaucracy and corruption, or both, remain a hang-up. Customs officials who check shipments of watches from Japan recently asked for "speed money," Kaneko observes. He didn't pay.

Life for the 330 Japanese living in Bangalore can be lonely. Though two Japanese restaurants serve the small community, none of the city's big markets sells the Japanese staples of sticky rice, soybean paste or fish stock, says Jetro's Kuboki. There are no direct flights back to Japan and no full-time Japanese schools for expats' children. Many, like Kaneko, leave their families in Japan.

Then there are the everyday hazards.

Over lunch Kaneko and his fast-talking sales manager Mazumder, a native of Kolkata, chat about the building's new elevator rules, after walking up two floors to an Italian eatery.

Pointing to the road below, Mazumder tells the boss he chances the lift because he might just as easily be killed crossing the street. "Why take the extra risk?" Kaneko responds. Mazumder pauses. When doing business in India, he advises, "You have to jump into the water to see where the sharks are."